

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 ARA-06 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 AID-05 COME-00 OMB-01 TRSE-00 AGR-05

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 0708

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E.O. 11652: GDS

TAGS: ETRD, PFOR, JA, CU

SUBJECT: JAPAN-CUBA TRADE

REFS: (A) TOKYO 7685; (B) TOKYO 6780; (C) TOKYO 6715;

(D) STATE 109884

SUMMARY: TO PROP UP SAGGING CUBAN MARKET FOR JAPANESE PLANTS AND EQUIPMENT, MAJOR TRADING FIRMS HAVE CONCLUDED MODEST CONTRACT FOR PURCHASE CUBAN SUGAR OVER NEXT FOUR YEARS. THOUGH CUBANS WERE COMPELLED TO RETREAT FAR FROM ORIGINAL PROPOSAL, DEAL IS SWEETENED BY ALLEGEDLY COINCIDENTAL GOJ EXIM BANK DECISION TO GRANT CUBA SMALL LOANS FOR PURCHASE OF JAPANESE SHIPS. GOJ, PARTICULARLY FONOFF, NEVERTHELESS CONTINUES TO RESIST PRESSURES TOWARD WARMER RELATIONSHIP WITH HAVANA. END SUMMARY.

1. A CONSORTIUM OF TWELVE JAPANESE TRADING FIRMS CONCLUDED ON JULY 1 A FOUR-YEAR, ONE MILLION TON CONTRACT FOR THE IMPORT OF CUBAN SUGAR. THE EMBASSY UNDERSTANDS THAT THE DEAL WAS CLOSED BY THE TRADING FIRMS MAINLY TO CONFIDENTIAL

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INSURE THE GROWING EXPORT MARKET IN CUBA FOR JAPANESE PLANTS

AND MACHINERY. THE JAPANESE SUGAR INDUSTRY IS LOCKED INTO LONG-TERM DEAL WITH AUSTRALIAN FIRMS AND, WITH DOMESTIC DEMAND SOFT AND THOUGHT LIKELY TO REMAIN SO, THE INDUSTRY OPPOSED LONG-TERM PURCHASE OF CUBAN SUGAR AS WELL. THE GOOD NEWS FOR THE TRADING COMPANY CONSORTIUM IS THEREFORE THAT THE CUBANS WERE COMPELLED TO SETTLE ON TERMS QUITE CLOSE TO THE ORIGINAL JAPANESE OFFER; THE BAD NEWS IS THAT THE TRADING COMPANIES MUST NOW FIGURE OUT HOW AND WHERE TO RESELL THE CUGAN SUGAR.

2. AT THE OUTSET OF THE NEGOTIATIONS, DURING THE JAPAN VISIT OF DEPUTY PREMIER RODRIGUEZ (REFTELS), THE CUBANS ASKED FOR A FOUR-YEAR, TWO MILLION TON CONTRACT WITH THE PRICE FOLLOWING SPOT MARKET THROUGH A 20 TO 40 CENT PER POUND RANGE. THE CUBAN TEAM LED BY "CUBAN SUGAR PUBLIC CORPORATION" PRESIDENT RESCANO REPORTEDLY NEGOTIATED HARD, BUT IN LATE JUNE WAS COMPELLED TO YIELD KEY DEMAND FOR FLOOR PRICE. WE UNDERSTAND THAT JAPANESE FIRMS HAVE AGREED TO BUY 100,000 TONS IN CY 77 AND 300,000 TONS IN EACH OF THE THREE FOLLOWING YEARS AT NEW YORK SPOT MARKET PRICE (CURRENTLY 13-14 CENTS PER POUND), F.O.B. HAVANA. THE JAPANESE PRESS SPECULATES THAT THE DEAL IS A SEVERE BLOW TO THE SUGAR EXPORTING COUNTRIES' DRIVE FOR AN INTERNATIONAL AGREEMENT STABILIZING THE SUGAR TRADE, AND ALSO TO CUBAN PRETENSIONS TO LEADERSHIP OF THE SUGAR PRODUCERS.

3. A FONOFF EXPERT DISCLAIMED TO EMBOFF THAT SUGAR DEAL IS LINKED TO EXIM BANK PROVISION OF CREDITS. HOWEVER, WE THINK IT HARDLY COINCIDENTAL THAT, ACCORDING TO JULY 4 REPORT IN NIHON KEIZAI (AND) CONFIRMED BY FONOFF, EXIM BANK HAS AGREED TO UNDERWRITE DEFERRED-PAYMENT PURCHASE BY CUBANS OF SMALL FREIGHTER (30 PER CENT DOWN, REST IN INSTALLMENTS OVER SEVEN YEAR PERIOD). HITHERTO, THE GOJ HAS REQUIRED CASH ON THE BARRELHEAD FROM THE CASTRO REGIME; WE UNDERSTAND THAT THE GOJ WILL NOW CONSIDER SIMILAR LOANS ON A CASE-BY-CASE BASIS, AND SOME ARE REPORTEDLY UNDER NEGOTIATION.

4. COMMENT: THESE DEVELOPMENTS REFLECT MINIMAL GOJ CONCESSION TO THE STRONG DESIRE OF THE EXPORT-ORIENTED BUSINESS

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SECTOR TO REINFORCE SAGGING TRADE LINKS WITH CUBA. THE GOJ CONTINUES TO BE WARY OF THE PRECARIOUS CUBAN BALANCE OF PAYMENTS SITUATION. THE FONOFF, FURTHER, INTENDS TO INSURE THAT THE ENTHUSIASM OF THE BUSINESS COMMUNITY DOES NOT LEAD TO UNSEEMLY WARMING OF THE STATE-TO-STATE RELATIONSHIP.

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